

Nihon Unisys, Ltd.
Earnings Announcement
for the Third Quarter of the Fiscal Year Ending March 2017
held on February 1, 2017

Principal Questions and Answers

(with certain details modified in an attempt to provide readers with a deeper understanding)

(Note) The expression 'FY/Fiscal Year' utilized in this document indicates a fiscal year which finishes at the end of March of the following year.

Example: The expression of FY 2016 refers to the fiscal year ending March in 2017.

[Questioner A]

Q : Do I understand correctly that a ¥1.8 billion provision for employee bonuses was posted, totalling the same amount ¥0.6 billion for Q1, Q2 and Q3?

A : The ¥1.8 billion bonuses provision was posted for the Q3 period from October to December. This resulted in an additional cost for this Q3 compared with the previous third quarter when no bonuses provision was posted. The provision for bonuses posted in the first half was almost at the same level as that of the same period of FY2015.

Q : The outsourcing orders continued to be strong. I would like to know the current environment regarding orders. I think that you are expecting a large-scale outsourcing order from a financial institution in this fiscal year. May I ask where you are from the viewpoint of securing orders?

A : Orders increased by ¥3.0 billion in the third quarter, compared with Q3 of FY2015, partly due to a large-scale project ordered from a global company. The status of the financial institution project has not changed since the first half of this fiscal year. The remainder of our financial institution project will be ordered in Q4 after our having secured a portion of them in Q2.

[Questioner B]

Q : How will a bonus provision amount for the second half be changed, as compared with the same period of the previous fiscal year?

You said that you posted a ¥1.8 billion provision of employee bonuses in Q3. Do you plan to post approximately the same amount in Q4, as well?

A : I'd prefer to refrain from describing an absolute amount for the provision. The bonus provision scheme, in regard to FY2016, links bonus provision to operating income. According to our plan, we will have an increase in operating income in the period under review, and our annual amount of bonus payments is expected to increase. Thus, the amount of bonus provision in the second half is anticipated to be higher, as compared with the same period of the previous fiscal year.

(Note)

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Q : Large order backlogs were posted at the end of December.

How many of them are expected to be posted as net sales for the fourth quarter?

A : Approx. a quarter of the ¥214.7 billion order backlogs at the end of December are anticipated to be posted as net sales within this fiscal year. Order backlogs vary depending on individual business segments. Outsourcing projects are likely to be long-term, and thus a significant percentage of their order backlogs are expected to be posted as net sales in and after the next period. To the contrary, the majority of hardware product sales is expected to be posted within this fiscal year.

Q : A quarter of order backlogs is expected to be posted as net sales within the fiscal year. Is the ratio of 1/4 larger than that of the same period of FY2015?

A : It is almost on a par with the previous period. Usually, approx. a quarter of order backlogs at the end of Q3 is posted as net sales by the end of a fiscal year.

[Questioner C]

Q : It has been explained that ¥1.0 billion out of the total ¥1.8 billion bonus provision in Q3 is posted as costs for sales. May I ask for a breakdown of the impact of this on each business segment? Has the gross margin of software been compromised and reduced for that reason?

A : Sales costs appropriated for the ¥1.0 billion bonus provisions consist significantly of system services and only slightly of support services. They are not comprised of software or hardware product sales. In other words, product sales costs are not impacted. The Q3 software gross margin shrank due to a surge in sales of less profitable products.

Q : The operating income of the first half exceeded the planned value.

May I ask about Q3's actual status as compared to the plan?

A : We haven't announced predicted values for the third quarter. That being said, if compared with our internal plan, the nine-month accumulative net sales are slightly lower than hoped for. Despite a slight downturn, the operating income remained within the expected range.

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[Questioner D]

Q : If excluding impacts of the bonus provision (¥1.0 billion on sales costs and ¥0.8 billion on SG&A costs), the gross profit of Q3 would be ¥15.6 billion, and the SG&A costs would be ¥11.4 billion. Thus, do I understand correctly that the operating income would actually be ¥4.3 billion?

A : Correct.

Q : It was explained that bonuses are linked to performance.

Your H2 plan describes a ¥0.8 billion increase in operating income if compared with H2 of FY2015. Thus, can I assume that the H2 bonus will grow somewhat in accordance with this increase?

A : A formula for linking bonuses to performance is set based on operating income before bonus provision. Thus, it is difficult to assume a H2 bonus provision amount through the use of changes in the disclosed operating income values. We expect a H2 bonus amount increase of approx. half of the Q3 bonus provision up from the previous H2 bonus amount.

Q : The net sales of system services in the third quarter remained unchanged and the order backlogs decreased, in contrast to the orders that increased. Please share with us your thoughts on the current demand trends and potential for future growth.

A : System service projects have come to be comparatively small in size and of short-delivery duration, partly in response to requests from customers. Therefore, the order backlogs have become less incremental. Having secured plenty of projects from various industry sectors, we are not concerned about the future.

[Questioner E]

Q : Your 'Net Sales by Market' data indicates a fall in commerce/distribution as well as in public/government. I would like to know about both the order environment and inquiries situations.

A : Multiple numbers of mid-sized hardware and software projects of commerce/distribution were posted as net sales in the same period of the previous fiscal year. Thus, the net sales of Q3 FY2016 are smaller if compared with this fruitful period. The net sales of public/government decreased partly due to the contract with a local government having expired. However, we believe that robust order environments will actually continue, despite the compromised net sales.

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Q : If compared with Q2 forecast of the full-year performance of fiscal year ending March 2017, Q3 forecast indicates that the gross profit of support services has been revised upward and that of software sales has been revised downward. I would like to know the rationale for the revisions.

A : Efforts to reduce costs such as outsourcing costs since last year have taken effect, as reflected in support services. The gross profit of support services has been revised upward on the basis of an approx.¥ 0.5 billion decrease in outsourcing costs during the nine months and signs of improved profitability. We expect to continuously witness a certain level of effects from outsourcing costs reduction. The downward revision of software gross profit is attributed to: our dealing in a wide variety of software products; their profitability changing on an occasion-to-occasion basis; and the most recent surge in products of modest profitability.

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